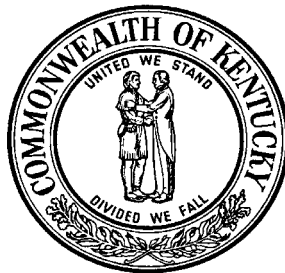


**REPORT OF THE AUDIT OF THE  
MENIFEE COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**April 3, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
MENIFEE COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**April 3, 2002**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Menifee County Sheriff as of April 3, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$816,006 for the districts for 2001 taxes, retaining commissions of \$32,164 to operate the Sheriff's office. The Sheriff distributed taxes of \$778,784 to the districts for 2001 Taxes. Taxes of \$3,428 are due to the districts from the Sheriff.

**Report Comments:**

- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff Should Pay Interest To The School Monthly
- The Sheriff's Tax Settlement Should Be Published
- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral to protect deposits.



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable James Trimble, Menifee County Judge/Executive

Honorable Rodney Coffey, Menifee County Sheriff

Members of the Menifee County Fiscal Court

Independent Auditor's Report

We have audited the Menifee County Sheriff's Settlement - 2001 Taxes as of April 3, 2002. This tax settlement is the responsibility of the Menifee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Menifee County Sheriff's taxes charged, credited, and paid as of April 3, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky

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Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable James Trimble, Menifee County Judge/Executive

Honorable Rodney Coffey, Menifee County Sheriff

Members of the Menifee County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 29, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff Should Pay Interest To The School Monthly
- The Sheriff's Tax Settlement Should Be Published
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -  
January 29, 2003



MENIFEE COUNTY  
 RODNEY COFFEY, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

April 3, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 110,133	\$ 213,086	\$ 360,165	\$ 134,938
Tangible Personal Property	4,945	8,403	12,822	11,417
Intangible Personal Property				3,677
Fire Protection	1,485			
Taxes Increased Through				
Erroneous Assessments	7	13	22	9
Franchise Corporation	14,835	13,892	39,164	
Additional Billings	12	20	30	290
Limestone, Sand, and Gravel Reserves	141	271	462	173
Bank Franchises	6,272			
Penalties	1,159	2,219	3,755	1,416
Adjusted to Sheriff's Receipt	(1)	37	45	12
Gross Chargeable to Sheriff	<u>\$ 138,988</u>	<u>\$ 237,941</u>	<u>\$ 416,465</u>	<u>\$ 151,932</u>
<u>Credits</u>				
Exonerations	\$ 2,235	\$ 4,224	\$ 7,113	\$ 2,731
Discounts	1,470	2,547	4,281	1,676
Delinquents:				
Real Estate	13,476	25,965	43,816	16,416
Tangible Personal Property	381	648	989	1,227
Intangible Personal Property				75
Uncollected Franchise	<u>11</u>	<u>10</u>	<u>29</u>	
Total Credits	<u>\$ 17,573</u>	<u>\$ 33,394</u>	<u>\$ 56,228</u>	<u>\$ 22,125</u>
Taxes Collected	\$ 121,415	\$ 204,547	\$ 360,237	\$ 129,807
Less: Commissions *	<u>5,448</u>	<u>6,503</u>	<u>14,409</u>	<u>5,804</u>
Taxes Due	\$ 115,967	\$ 198,044	\$ 345,828	\$ 124,003
Taxes Paid	115,546	194,855	344,569	123,814
Add: Penalty (KRS 46.990)				30
Less: Refunds (Current and Prior Year)	<u>235</u>	<u>446</u>	<u>760</u>	<u>219</u>
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 186</u>	<u>\$ 2,743</u>	<u>\$ 499</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statement.

MENIFEE COUNTY  
RODNEY COFFEY, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES  
April 3, 2002  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	378,361
4% on	\$	360,237
1% on	\$	67,408

\*\* Special Taxing Districts:

Library District	\$	374
Health District		57
Soil Conservation District		16
Fire District		<u>2,296</u>

Due Districts	\$	<u><u>2,743</u></u>
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MENIFEE COUNTY  
NOTES TO FINANCIAL STATEMENT

April 3, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

MENIFEE COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 3, 2002  
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2001, through April 3, 2002.

Note 4. Interest Income

The Menifee County Sheriff earned \$483 as interest income on 2001 taxes. As of January 29, 2003, the Sheriff owes \$205 in interest to the school district and \$278 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Menifee County Sheriff collected \$5,236 of 10% add-on fees allowed by KRS 134.430(3). As of January 29, 2003, the Sheriff owes \$5,236 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Menifee County Sheriff collected \$132 of advertising costs and \$445 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of January 29, 2003, the Sheriff owes \$132 in advertising costs to the county and \$445 in advertising fees to his fee account.

## COMMENTS AND RECOMMENDATIONS



MENIFEE COUNTY  
RODNEY COFFEY, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of April 3, 2002

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of December 7, 2001, the Sheriff had bank deposits of \$497,504; FDIC insurance of \$100,000; and collateral pledged or provided of \$465,875. Even though the Sheriff obtained sufficient collateral of \$465,875, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and, (c) an official record of the depository institution.

*Sheriff's Response:*

*The Menifee County Sheriff's Department currently has a written agreement with Traditional Bank.*

2. The Sheriff Should Pay Interest To The School Monthly

The Sheriff did not pay interest earned to the school for the school's portion of taxes collected. KRS 134.140(3)(b) states "the sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes". Our calculations indicate that the Sheriff owes the school \$205 and the 2002 fee account \$278. We recommend the Sheriff pay the school's portion of interest monthly in the future.

*Sheriff's Response:*

*Will try in the future to pay interest to school monthly instead of yearly.*

3. The Sheriff's Tax Settlement Should Be Published

The Sheriff's 2001 tax settlement was not published. KRS 134.310(2) requires the settlement to be published pursuant to KRS Chapter 424. We recommend the Sheriff begin publishing his tax settlement annually.

*Sheriff's Response:*

*No response.*

MENIFEE COUNTY  
RODNEY COFFEY, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of April 3, 2002  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. To offset this lack of segregation of duties, the Sheriff could implement compensating controls and procedures. One compensating control procedure the Sheriff could implement is to periodically, and on a surprise basis, compare a daily bank deposit to the daily tax collection journal and daily receipts ledger. Any differences should be investigated and reconciled. The sheriff could document this procedure by initialing the documents.

*Sheriff's Response:*

*No funds available to hire full time bookkeeper.*

PRIOR YEAR:

- Lacks Adequate Segregation Of Duties



REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

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**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of The Financial**  
**Statement Performed In Accordance With Government Auditing Standards**

We have audited the Menifee County Sheriff's Settlement - 2001 Taxes as of April 3, 2002, and have issued our report thereon dated January 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Menifee County Sheriff's Settlement - 2001 Taxes as of April 3, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff Should Pay Interest To The School Monthly
- The Sheriff's Tax Settlement Should Be Published



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Menifee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
January 29, 2003

